Overview of Foreign Investment Climate

Strong economic growth, open markets, and abundant natural resources - including at least 2.5 billion barrels of recoverable oil - provide good opportunities for knowledgeable investors in Uganda. The country maintains a liberal trade and foreign exchange regime, and largely adheres to IMF/World Bank programs to fight poverty, maintain macroeconomic stability and restructure the economy. The Government is revising a range of laws and regulations to improve government accountability, open markets, develop infrastructure, and build a more attractive environment for foreign investment. However, sluggish bureaucracy, poor infrastructure, insufficient power supply, high energy and production costs, non-tariff barriers, corruption, and government interference in the private sector can make Uganda a challenging investment climate.

Power supply remains one of the largest obstacles to investment, and Uganda’s electricity network urgently needs renovation and expansion. Demand for electricity in Uganda far exceeds supply. Only 5% of Uganda's rural population has access to electricity, and most people still rely on wood and charcoal for fuel. As fuel prices have steadily risen, Uganda's reliance on expensive and heavily-subsidized thermal power has become unsustainably costly. Some of Uganda's oil reserves may eventually be used to meet a portion of Uganda's power needs, but commercial oil production is still years away. Fiscal year 2011 ended with the Government in arrears of almost $90 million to independent power producers (IPPs). As a result, a number of IPPs shut plants down, causing 24-hour rolling blackouts through the country. Problems in the power sector led to public protests in 2011, and Government plans to raise power tariffs in 2012 may exacerbate political tensions.

Full commissioning of the 250 megawatt Bujagali Hydropower Project in 2012 will temporarily alleviate Uganda’s power deficit, but demand is growing at 10% per year, and is expected to outstrip supply again by 2015. The Government is fast-tracking development of its Karuma hydropower project which could bring another 600 megawatts of power to Uganda’s grid by 2017. Uganda is also constructing a number of micro-hydro projects along the River Nile, and is promoting development of renewable energy in Uganda. In 2010, the Electricity Regulatory Authority announced renewable energy feed-in tariffs to encourage greater private sector participation in power generation. In 2011, the Uganda Energy Credit Capitalisation Company (UECC) was launched to enhance private sector financing for small-scale renewable energy projects, and the VAT tax was eliminated on imports for solar energy components.

High transportation costs are another constraint on Uganda's economy. Uganda’s dilapidated road and bridge infrastructure needs considerable investment, its railway system is in disrepair, and air freight charges are among the highest in the region. A two-lane highway from Kenya remains the primary route for 80% of Uganda's trade, making transportation slow, costly and susceptible to disruption. In 2007, election-related violence in Kenya virtually halted imports into Uganda for over two months, causing a spike in commodity and fuel prices. Also a problem is landlocked Uganda’s reliance on Kenya’s Mombasa port, where chronic congestion increasingly results in costly delays. Uganda also relies on the refinery at Mombasa for all of Uganda’s fuel, and the cost of transport to Uganda keeps fuel prices high. The Government is planning to construct an oil refinery, which will eventually reduce Uganda's reliance on expensive imported fuel, but planning for the refinery is still in the early stages. Uganda also hopes to shift more cargo transit from trucking to rail as the 2,350-kilometer Kampala-Mombasa line is upgraded and expanded in a five-year project financed by the Rift Valley Railways Consortium, the International Finance Corporation, and a multitude of other finance institutions. The Private Sector Foundation Uganda, a private business advocacy group, estimates that the railway link to the coast could reduce transport costs from the current $129 per ton to $49 per ton. Uganda and Tanzania are also exploring the possibility of building a railway line between Tanzania's port at Tanga and Musoma, on Lake Victoria, a project which would give Uganda an alternative to relying on Mombasa for all its shipping. In December 2011, the two countries signed a memorandum of understanding with a Chinese engineering and construction firm to conduct a feasibility study for the $3 billion project.

In 2011, passenger traffic through Uganda's Entebbe International Airport was up 6.1% from 2010, with nearly 1.1 million people flowing through. In 2010, four new international carriers commenced flights to Entebbe, bringing the total number to 22.

Uganda's social services systems are lagging behind the demand generated by economic expansion and population growth. At 3.5% per year, Uganda's population growth rate is one of the fastest in the world. Uganda's current total population of 34.5 million is expected to double by 2032. While creating potential markets for products, the country's population growth is also increasing the strain on social services, underfunded schools and hospitals, infrastructure, forests, water, and land resources. The high level of HIV/AIDS infection in the country is also taxing social services. Although prevalence rates have decreased from a high of 20% in the 1990s, they have stagnated at 6 -7% for the past decade.

Uganda’s economy has been growing steadily in recent years, with an average growth of 9% over the last 5 years, and higher than expected growth of 6.7% in fiscal year 2010/11. The fastest growing sectors of the economy are services (especially financial services), construction, manufacturing, transportation, telecommunications, energy infrastructure, and oil and gas. However, in many ways 2011 was a tumultuous year for Uganda’s economy. The shilling lost nearly 25% of its value over the course of the year, and headline inflation spiked from just 5% in January, to 30.4% in October, the highest level in 18 years. Inflation hit the manufacturing, and construction sectors particularly hard, as costs soared. Exports were hurt by the economic slowdown in Europe, an important market for Uganda’s agricultural, horticultural, and fish industries. To tame inflation, Uganda’s Central Bank tightened monetary policy, which sent commercial loan rates soaring as high as 34%, leading to a steep drop in borrowing and investment. As 2011 drew to a close, the shilling had almost completely recovered, but inflation was still 27%.

Foreign Direct Investment was $789 million in 2009, $817 million in 2010, and is expected to rise in 2012 as investment in Uganda’s oil sector continues. However, political wrangling, lawsuits, and the lack of a legal framework for the oil industry slowed investment in the oil sector in 2011. A tax dispute over the sale of oil rights by foreign oil companies led to ongoing arbitration and lawsuits, and created concern among foreign investors about political interference and the lack of clear rules in the oil sector. In 2011, allegations of mismanagement and corruption in the oil sector prompted Parliament to declare a moratorium on all oil-related exploration and transactions until Parliament passes pending petroleum legislation. The gridlock has led to costly delays for foreign oil companies, whose equipment and staff sit idle, waiting for the political and legal processes to play out. In 2011, Fitch Ratings slightly downgraded Uganda's rating, from B positive to B stable, due in part to continuing uncertainties in the oil sector. However, the International Monetary Fund's (IMF) outlook for Uganda remains fairly positive, with the IMF projecting that the economy will grow 5% in fiscal year 2011/2012, and that inflation will fall to single digits by the end of 2012.

Openness to, and Restrictions Upon, Foreign Investment

Uganda is open to foreign investment and provides tax incentives for medium and long-term foreign investors. The Heritage Foundation's 2011 Index of Economic Freedom ranked Uganda's economy 80th of 179 countries, based on ease of doing business, trade freedom, property rights, and fiscal and monetary policy. Among the 46 sub-Saharan African countries on the index, Uganda's economy ranked as 7th freest overall, and as 3rd best on measures of responsible government spending and fiscal policies. However, due to perceptions that widespread corruption even at the highest levels of government makes it difficult for foreign businesses to compete, Uganda ranked low at 31st of 46 sub-Saharan African countries on measures of corruption. Uganda dropped from 2nd to 22nd of 46 on the Index's measure of monetary freedom, due to perceptions that government interference in the economy through state-owned enterprises leads to domestic price distortions.

Since coming to power in 1986, President Yoweri Museveni has established relative political stability and economic growth, with policies to liberalize the Ugandan economy and encourage foreign businesses to set up operations in Uganda, particularly in value-added manufacturing and agro-processing. In 2001, Uganda created the Uganda Investment Authority (UIA) to assist investors, and although the process of registering a business in Uganda remains cumbersome, in recent years UIA has introduced administrative changes to improve the process. In 2009, in response to criticism that UIA catered only to foreign investors, UIA established a Domestic Investment Division to assist small and medium enterprises (SMEs). In 2011, "desk officers" from Immigration, the Uganda Revenue Authority, and the Uganda Registration Services Bureau were placed in UIA to allow investors to register their business, get a tax ID, open a tax file, and apply for investments licenses and work permits, all under one roof. The Uganda Registration Services Bureau (URSB) recently computerized its company registry, reducing the time and number of steps required to start a business, and revisions to the Investment Code now pending in Parliament would further streamline the process.

Uganda is moving away from a much-criticized emphasis on ad hoc, venture-specific incentives for potential investors in favor of an approach aimed at leveling the playing field for all investors. Previously, UIA gave foreign investors certificates making them eligible for tax holidays and exemptions. Due in part to criticism that this approach favored foreign investors over domestic ones, UIA abandoned this practice, and Uganda's investment incentives are now codified in its tax laws. In order to boost domestic revenues, Uganda made some significant changes to its tax code in 2011, including the introduction of transfer pricing regulations and the elimination of the "investment trader status," which previously allowed monthly recouping of VAT on all imports and services related to the initial construction of an investment.

In addition to tax incentives, Uganda offers investment incentives for investors in four "priority" sectors: information and communication technology, tourism, value-added agriculture, and value-added investments in mineral extraction. Uganda is also hoping to lure investors with its long-term plan to build 22 fully-serviced industrial parks in Uganda's largest urban centers. Investors in priority sectors can get a 49-year lease in an industrial park without paying the usual $80,000 premium. Since 2008, UIA has allocated land to 277 investors in the Namanve Industrial Park, which is under development on the outskirts of Kampala, and several large international companies are already operating there. The park, which will eventually cover 650-hectares, is divided into four main industrial clusters: food processing, light industry and services, heavy industry, and another for SMEs. Other parks are planned for Jinja, Kasese, Mbarara, Mbale, Gulu, and Soroti. For more information on incentives, see the section below entitled "Performance Requirements and Incentives." Investors can also find information on investor incentives on the UIA website at www.ugandainvest.com.

According to UIA, most new foreign investments in 2011 came from Kenya, followed by Norway, India, China and Iran. U.S. foreign investment in Uganda remains relatively small, with new U.S. investments in 2011 totaling nearly $2 million, making the U.S. the 22nd largest investor in Uganda. The main areas of foreign investment were in manufacturing, financial services and real estate, and agriculture, forestry and fish. Other areas of significant investment were in power, oil, construction and mining. In 2011, UIA began to more closely scrutinize foreign investment license applicants, rejecting a greater number of those lacking solid business plans and capital. In response to growing perceptions that foreign workers without work permits were taking local jobs, the Government also began more strictly enforcing its foreign labor laws. Foreign investors in Uganda should be aware that projects that could impact the environment require an Environmental Impact Assessment (EIA) carried out by the National Environment Management Authority (NEMA). The requirement for EIAs applies to both local and foreign investors.

Ugandan policies, laws, and regulations are generally favorable towards foreign investors, but reforms are needed, and in recent years Uganda has taken a number of measures to improve its investment climate and streamline bureaucracy. In 2004, President Museveni launched the Presidential Investors Roundtable (PIRT), a biannual forum in which he solicits input from national and international investors on ways to accelerate reform and increase private investment and competitiveness in Uganda. One proposal to emerge from the PIRT was to establish a Ugandan infrastructure fund, and feasibility studies for the prospective fund are currently under way. In 2006, the World Bank provided a $70 million credit for the Private Sector Competitiveness Project, a program to enhance enterprise competitiveness, improve the business environment and develop infrastructure and financial services. The project also aims to revamp the land registry system, modernize Uganda's business registration service, support the Uganda Law Reform Commission in the revision of the commercial legislation, develop private sector capacity and skills, boost private sector productivity, and raise the quality, standards, and reliability of micro, small, and medium-sized enterprises. In 2011, the Government drafted a new Competitiveness and Investment Climate Strategy aimed at improving the business climate.

In 2010, with support from the World Bank, Uganda launched a four-year program to study ways to reform its legal and regulatory regime, develop better investment policies, and further improve Uganda's investment climate. The program aims to reduce regulatory burdens in Uganda by 25% by 2014. Uganda is currently reviewing or revising more than 17 commercial and bankruptcy laws to reduce administrative delays and the cost of doing business. The new laws would amend Uganda’s Companies Act, modernize and speed up bankruptcy procedures, expand and clarify provisions on mortgages, update commercial contract law, and modernize provisions for e-commerce and electronic signatures. Especially critical to improving the investment climate in Uganda will be passage of the Anti-Counterfeiting and Anti-Money Laundering bills, which are currently pending in Parliament. According to a 2011 Parliamentary report on the economy, counterfeit business accounts for as much as 10% of international trade in Uganda. The prevalence of counterfeit goods deters foreign companies from entering the Ugandan market and results in losses of jobs, business opportunities, and tax revenues.

Under Ugandan law, foreign investors may form 100% foreign-owned limited or unlimited liability companies and majority or minority joint ventures with Ugandan partners without restrictions. The Investment Code allows foreign participation in any industrial sector except those touching on national security or requiring the ownership of land. Licensing from UIA requires a commitment to invest over $100,000 over three years. (See “Performance Requirements and Incentives" below.) Most foreign investors establish themselves as limited liability companies. Ugandan law also permits foreign investors to acquire domestic enterprises or establish greenfield ventures. If passed, the amended Companies Act will allow for the creation of single-person companies, permit the registration of companies incorporated outside of Uganda, and provide new provisions for share capital allotments and transfers. For a full description of the type of companies foreign firms are allowed to establish, visit the UIA website at www.ugandainvest.com, or see the Business in Development Network Guide to Uganda available at www.bidnetwork.org.

Ugandan courts generally uphold the sanctity of contracts, though judicial corruption and procedural delays caused by well-connected defendants are a serious challenge. At times, Ugandan government agencies are reluctant to honor judicial remedies issued by the courts. Courts apply the principles of English common law. Under current debt collection laws, creditors can prove their debts to a court-appointed receiver for payment. Secured debtors receive payment priority.

In recent years, the Uganda Revenue Authority (URA) has improved its efficiency, boosted transparency, and increased tax compliance. Despite these improvements, however, the URA is still widely perceived as a corrupt institution. Transparency International’s 2011 East African Bribery Index listed the URA as the fifth most corrupt institution in East Africa and the third most corrupt institution in Uganda. Foreign investors have complained that tax rules are unclear and subject to change. Several foreign companies have had tax disputes with URA in recent years, including one that has led to international arbitration over capital gains taxes on sales of oil assets. Individuals are taxed at rates between zero and 30%, corporate tax is 30%, the Value Added Tax (VAT) is 18%, and capital gains taxes on profits accrued after 1998 are 30%.

Uganda's lack of adequate electricity supply and poor road infrastructure are major impediments for investors. Uganda’s current energy supply of 340 megawatts falls far short of the 460 megawatts of current demand. This power deficit, combined with the inability of the Government to pay the bills for its overly subsidized power sector, resulted in chronic power blackouts in the second half of 2011. With demand for power increasing 10% per year, the Government hopes to expand capacity to 1,045 megawatts within the next five years. The 250 megawatt hydropower dam at Bujagali Falls on the Nile River is expected to be fully online in 2012. The Government is also fast-tracking the 600 megawatt Karuma Hydropower Project, but it will not go online until 2017, at the earliest.

The telecom sector has boomed since 2006, when the Government lifted a moratorium on new mobile telephone operator licenses, and five companies are now in the market. This has generated fierce competition, lower prices, wider coverage, and greater telephone penetration among the population and throughout the country. Uganda now has 14.7 million cell phone users, nearly a million Internet subscribers, and some 4.6 million Internet users. But the rapid growth has also lead to service problems, as rising demand has exceeded network capacity. In 2011 Uganda launched a $117 million national fiber-optic network to take advantage of the arrival of undersea fiber-optic cables in East Africa. The ongoing project is being built in phases, and is expected to be complete by the end of 2012. Uganda is also in the process of migrating from analogue to digital broadcasting, but is unlikely to meet the East African Community deadline of December 2012. The process was delayed in 2011 after a Parliamentary committee halted a $75 million deal with a Chinese telecommunications firm, alleging that it bypassed proper government tendering procedures and was twice as costly as it should have been. Bureaucratic wrangling over regulatory issues has further delayed the process.

Measure	**Year**	**Index/Ranking**
TI Corruption Index	2011	2.4 (143/182)
Heritage Economic Freedom	2011	62.2 (76/179)
World Bank Doing Business	2011	122/183
MCC Gov't Effectiveness	2012	.31 (78%)
MCC Rule of Law	2012	.52 (88%)
MCC Control of Corruption	2012	-.10 (46%)
MCC Fiscal Policy	2012	-3.5 (37%)
MCC Trade Policy	2012	73.6 (73%)
MCC Regulatory Quality	2012	.60 (93%)
MCC Business Start Up	2012	.900 (34%)
MCC Land Rights Access	2012	.842 (94%)
MCC Natural Resource Mgmt	2012	67.65 (66%)

Conversion and Transfer Policies

Uganda keeps open capital accounts, and Ugandan law imposes no restrictions on capital transfers in and out of Uganda. Investors can obtain foreign exchange and make transfers at commercial banks without approval from the Bank of Uganda in order to repatriate profits and dividends, and make payments for imports and services. Investors have reported no problems with their ability to perform currency transactions.

Expropriation and Compensation

The mass expropriation of Asian properties under the Idi Amin regime in the 1970s was the largest violation of property rights in Uganda's history. With the passage of the Expropriated Properties Act of 1982, the Government began to right this historical wrong, and by 1997 approximately 4,000 properties had been returned to their owners, and 1,500 others were sold off and the former owners compensated. There has been no case of expropriation since Museveni came to power in 1986. The Ugandan Constitution states that the interests of a licensed investor may only be expropriated when it "is necessary for public use or in the interest of defense, public safety, public order, public morality or public health..." The Constitution also guarantees "prompt payment of fair and adequate compensation, prior to the taking of possession or acquisition of the property." The Constitution guarantees any person who has an interest or right over expropriated property access to a court of law. Uganda is a member of the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID).

Dispute Settlement

Uganda is reforming its commercial justice system, which now includes mandatory mediation for all commercial disputes to help reduce case backlogs. Uganda opened its first Commercial Court in 1996 to deliver an efficient, expeditious, and cost-effective mode of adjudicating commercial disputes. The court has four commercial court judges and two deputy registrars. In 2011, the court handled 1700 commercial cases, and the caseload is expected to steadily increase as investment continues to flow into Uganda's oil sector. Despite a lack of funds and space, the commercial courts dispose of disputes within about seven months, as opposed to the several years it used to take commercial litigation to wind through the judiciary. Through the court's mediators and pre-trial conferences, approximately 80% of disputes are settled out of court, saving time and money. Because Ugandan law stipulates that the Court be "proactive," the Court engages regularly with the private sector through its Court Users Committee, which includes representatives from banks, insurance companies and the manufacturing sector. Through this forum, the court has worked with Uganda's tax authority to reduce the number of tax cases resulting in litigation, and has persuaded banks to opt for loan restructuring in default cases that were previously ending up in court. Some investors have complained that the legal process favors local companies, that political pressures can disrupt and delay outcomes, and that government agencies can be slow or reluctant to follow rulings. The Center of Arbitration for Dispute Resolution (CADER) can assist in commercial disputes.

Uganda is a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Pursuant to the Reciprocal Enforcement of Judgment Act, judgments of foreign courts are accepted and enforced by Ugandan courts where those foreign courts accept and enforce the judgments of Ugandan courts. Monetary judgments are generally made in local currency. Due to antiquated laws that codify penalties using specific shilling amounts, in some cases penalties are not a sufficient deterrent due to currency depreciation. However, Uganda is slowly rectifying this, modifying out-dated laws, and codifying penalties in new laws using currency points. Pursuant to Section 73 of the Arbitration and Conciliation Act, the Government accepts binding arbitration with foreign investors. The act, which incorporates the 1958 New York Convention, also authorizes binding arbitration between private parties.

Performance Requirements/Incentives

There are no mandatory performance requirements in the Investment Code, but Uganda's regulatory authorities mandate standards such as staff qualifications as licensing conditions for some categories of investment. Uganda's National Environment Management Authority (NEMA) is responsible for enforcing environmental regulations. The most basic licensing condition is that investors creating 100% foreign-owned enterprises should commit in their proposals to invest a minimum of $100,000 to their projects over a course of three years. This amount can include pre-investment activities and the cost of land, equipment, buildings, machinery, and construction. Foreign-owned banks and insurance companies are also subject to higher paid-up capital requirements than are domestic firms. Ugandan law limits foreign ownership of land. For more information on land ownership, see "Right to Private Ownership and Establishment," below.

Uganda’s fiscal incentive package for both domestic and foreign investors provides generous capital recovery terms, particularly for medium and long-term investors whose projects entail significant plant and machinery costs and involve significant training. In Kampala, 50% of capital allowances for plants and machinery are deductible from a company's income on a one-time basis; elsewhere in Uganda, 75% of those capital allowances are deductible. 100% of training costs are deductible on a one-time basis. A range of annual VAT deferments, deductions, exemptions and depreciation allowances also exist, resulting in investors often paying no tax at all in the first year of their investment, and usually paying substantially less than the 30% corporate tax rate in the subsequent years of their investment. The Government also provides a 10-year tax holiday for investors engaged in export-oriented production and, if the investment is located more than 25 kilometers away from Kampala, for agro-processing investors. Investors can find information on investor incentives and capital allowances on the UIA website at www.ugandainvest.com, and at URA's website www.ura.go.ug.

Right to Private Ownership and Establishment

Businesses generally deem acquisition of land with a clean title as one of their biggest challenges, and land disputes are common in Uganda. Uganda's Commercial Court has a Land Division that deals specifically with land disputes. According to the World Bank's 2012 Doing Business Survey, Uganda's property registration process has somewhat improved, and ranked 127 out of 183 countries surveyed, up 23 places from last year. The Private Sector Foundation Uganda, with credit from the World Bank, is in the process of creating a new land registry and intends to establish five land offices throughout the country.

The Land Act of 1998 codified many of the complex land laws in Uganda. Foreign companies or foreign individuals may not own land. However, with UIA approval they may hold it under 49-year leases. Foreigners must seek Land Ministry approval through the UIA to lease land over 50 acres for agricultural or animal production purposes. Uganda has not initiated any changes to allow foreign investors to purchase freehold property. However, some foreign investors circumvent land ownership restrictions by establishing locally incorporated companies.

The issue of land and title in Uganda is complicated by the existence of four different land tenure systems: customary, mailoland, freehold, and leasehold. Customary land refers to rural land governed by the unwritten, customary laws of a specific area. Customary land is difficult to use because no titles or surveys of such land exist and contracts are difficult to enforce in courts of law. Further, banks do not accept customary land as collateral. Mailoland is land that was granted to individuals and churches mostly in central Uganda during the colonial period. Mailoland cannot be owned by foreigners and the use of such land is subject to the agreement of bonafide or lawful occupants, who may not own the land but have the right to reside there. Mailoland is also problematic for foreign investors seeking secure, court-enforceable use of land. The 2009 Land Act complicated this further by giving occupants and squatters increased rights on mailoland at the expense of owner rights. Freehold land is the system in which registered land is owned permanently. It is available only to Ugandan citizens, though it can be leased to foreigners. It can be also used as collateral for bank loans. Leasehold land is land leased by freeholders and is most commonly used by foreign investors. Foreigners may obtain contracts for leases of between 49 and 99 years on leasehold. It can be used as collateral on loans, depending on the length of the lease.

Protection of Property Rights

Domestic private entities have the right to own property and businesses and may dispose of them at will. The mass expropriation of Asian properties under the Idi Amin regime in the 1970s was the largest violation of this right in Uganda's history. With the passage of the Expropriated Properties Act of 1982, the Government began to right this historical wrong, and by 1997 approximately 4,000 properties had been returned to their owners, and 1,500 others sold off and the former owners compensated.

The Uganda Revenue Authority, Ugandan Customs, and the Ugandan National Bureau of Standards share enforcement of Uganda's minimal existing counterfeit laws, but lack the funding and resources to adequately enforce these laws. An Anti-Counterfeiting Bill pending in Parliament would, if passed, considerably clarify and strengthen Uganda's laws with stiffer penalties and enforcement guidelines.

Most counterfeit goods entering Uganda are manufactured in China and India. Bootlegged CDs, DVDs, and computer software are openly sold in Uganda's market places, and counterfeit pharmaceuticals and agricultural inputs are becoming an increasing problem. American manufacturers of consumer goods, particularly of shoe polish, batteries, feminine hygiene products, ink cartridges and chemicals have complained that counterfeiters are damaging their markets as fake goods serve as a deterrent to future foreign direct investment and damage brand names.

Uganda signed the World Intellectual Property Organization's Patent Law Treaty in 2000, but has not yet ratified it. Under Section 31 of the Patents Statute of 1991, the Registrar of Patents awards patents for an initial period of 15 years, with a possible five-year extension if a request is made one month before expiration of the original term. The 2006 Copyrights and Neighbouring Act and the 2010 Trademarks Act also provide protection for intellectual property rights. Uganda's Commercial court is hearing an increasing number of intellectual property and trademark cases, especially by artists and musicians in Uganda's Performing Arts Rights Society. But few cases of counterfeiting have come before the court because companies are not actively taking measures to protect their brands in Uganda. The Court has the power to impound goods and impose injunctions. It also has the power to impose financial damages on trademark and copyright violators, but has not done so due to the difficulty of assessing actual financial damages from violations.

Transparency of the Regulatory System

Ugandan laws and regulations are published in the Government Gazette, but the regulatory system lacks internal transparency and varies substantially by regulatory body. Government agencies often have hearings, both public and private, where interested parties have an opportunity to comment on draft legislation and regulations. Agencies do not always observe all legal provisions, however, failing to hold hearings, ignoring the requirement for public tenders, ignoring regulatory violations, or providing other types of assistance to well-connected local businessmen. The UIA provides assistance to potential investors in navigating the regulatory process.

Many Ugandan agencies require potential and current investors to cut through substantial amounts of red tape for normal business transactions. The World Bank's 2011 Doing Business report ranked Uganda 123 of 183 countries for ease of doing business. The study found that on average it takes 16 procedures and 34 days to start a business in Uganda. Starting a business in certain sectors, such as mining, may take substantially longer. General infrastructure hindrances such as poor telecommunications and increasing amounts of traffic in Kampala slow down certain processes. Investors complain that government officials often require firms interested in government procurement contracts to provide under-the-table cash payments in person at local agency offices. Regulatory inefficiencies and corruption negatively affect foreign and domestic firms equally.

The Bank of Uganda is reasonably transparent, but the legal system is less so. Courts, particularly at the upper levels, have made independent judgments in the past, but these judgments are sometimes ignored and some parties to legal proceedings take advantage of the legal system's inherent delays and incoherence to manipulate judicial outcomes.

Efficient Capital Markets and Portfolio Investment

The Bank of Uganda remains one of the most respected central banks in sub-Saharan Africa for its success in keeping markets open, the currency stable, and inflation relatively low. Its solid record was put to the test in 2011, however, as the currency fell 25% and headline inflation soared from 5% in January to 30.4% in October, the highest level in 18 years. Following years of loose monetary policy, the Bank was forced to abruptly tighten policy in mid-2011, sending some interest rates soaring to 34%. Public outrage at the crippling interest rates led to business strikes in early 2012. The Bank also came under wide criticism for allowing foreign reserves to be drawn down to finance the 2011 Presidential and Parliamentary elections, and purchase six Russian fighter jets. Import coverage dropped from 6 months at the end of 2010 to just 3.5 months in late 2011.

Increased supervision of the banking sector in recent years has helped it recover from a banking crisis in the late 1990s, when several banks failed or were closed down. In 2010, the Bank of Uganda required commercial banks to raise their capital from a minimum $4 million to $25 million, and all banks have complied, some by floating shares on the stock exchange. Commercial banking assets rose to $5.3 billion in 2011, up from $4.9 billion in 2008. Most banks are foreign owned, including major international institutions such as Citigroup, Barclays, Stanbic, Standard Chartered, and Bank of Baroda. The banking industry has no serious non-performing loan problems. According to the Bank of Uganda, at the end of fiscal year 2010/2011, only 1.8% of assets were in non-performing loans. However, due to the recent spike in interest rates, the number of defaults on bank loans is expected to rise in 2012.

Capital markets are open to foreign investors. The Government imposes a 15% withholding tax on interest and dividends. Credit is allocated on market terms, and rates are high. Following the lifting of the moratorium on new banks in 2007, a number of new banks have entered the market, bringing the current total to 24. Competitiveness and innovation have also steadily increased, but lending to the private sector is still relatively low. In recent years, low rates of return on government-issued bills and bonds induced banks to begin shifting their focus to commercial lending. Today, holdings of Government Treasury bills comprise roughly a third of commercial loan portfolios. Commercial bank lending has grown considerably in recent years. According to the Bank of Uganda, during the 2010/2011 fiscal year, commercial bank lending to the private sector grew by 44.4%. However, after tight monetary policy introduced in the second half of 2011 sent interest rates soaring, lending declined rapidly in the first quarter of 2011/2012. Interest rates for 12-month corporate loans are lower, generally between 12% and 18%.

The Capital Markets Authority Statute of 1996 and subsidiary regulations address the licensing of broker/dealers and of stock exchanges, and established the Capital Markets Authority as the securities regulator in Uganda. The Uganda Securities Exchange was inaugurated in June 1997 and is now trading the stock of 14 companies. Foreign-owned companies are allowed to trade on the stock exchange, subject to some share issuance requirements, and the Kampala exchange contains cross-listings of six Kenyan companies: Kenya Airways, East African Breweries, Jubilee Holdings Ltd., Kenyan Commercial Bank, National Media Group, and Centum Investment. The East African Development Bank also lists bonds on the exchange. In 2011, market capitalization at the exchange dropped from $5.67 billion to $3.75 billion due to high inflation and a volatile currency, the global economic slowdown, and the continuing reluctance of risk-averse investors to invest in emerging markets.

In 2004, the Bank of Uganda added ten-year bonds to its two-, three-, five-year offerings to facilitate its control of liquidity and inflation and to further develop the bond market. The Government hopes that by creating a benchmark yield curve it will encourage private companies to access the debt markets. Some large local businesses have been reluctant to turn to the capital markets, however, in part because strict disclosure requirements would force them to adhere to higher international auditing standards than most Ugandan businesses normally achieve. Seven companies currently provide brokerage services, including one American-owned firm, Crested Stocks and Securities. There are no restrictions prohibiting investors from pooling funds to be invested on the exchange and in government treasury bills and treasury bonds. In December 2004, African Alliance Uganda was licensed to operate the first Ugandan collective investment scheme.

According to the Bank of Uganda, Foreign Direct Investment (FDI) in 2011 was $820 million, with most FDI coming from China, followed by India, Kenya, South Africa, and Australia. FDI from Europe and North America was lower than expected due to the economic slowdown, but the BOU anticipates FDI will remain robust in 2012, with an influx of $900 million. Uganda's bond market did well in 2011, with high interest rates luring back foreign investors scared off by the financial crisis of 2008. According to the Bank, the percentage of foreign investors buying Ugandan bonds and Treasury bills rose from zero in July to 12% in December. In spite of the global economic slowdown, remittances remained an important source of foreign exchange for Uganda in 2011. The Bank of Uganda estimates worker remittances in 2011 were $729.7 million, down from $768.4 in 2010.

Competition from State-Owned Enterprises

The Government began a privatization program in 1993 that has resulted in the complete or partial divestiture of the majority of Uganda's public enterprises, with a number of strategic businesses remaining in State hands. The program has attracted foreign investors primarily in the agri-business, hotel, and banking sectors. The Government has shown a willingness to consider debt/equity swaps in which government ownership in companies is transferred to private sector minority shareholders on mutually acceptable terms. Though generally deemed successful, some observers have questioned the transparency of certain transactions carried out in the name of privatization, arguing that the benefits of the most lucrative sales went to insiders.

State-owned enterprises currently exist in a number of sectors, including mining, housing, electricity, and transport. In some of these sectors, the Government is not directly involved in the running of the business, but remains a shareholder. The Government is open to competition from private investors in all of these sectors. Uganda is also planning to establish a National Oil Company, and although it does not currently have a sovereign wealth fund, that may change in the near future when revenues from commercial oil production start flowing in.

Corporate Social Responsibility

In Uganda, corporate social responsibility (CSR) projects are expected from many of the larger foreign enterprises. This is especially true in the extractive industries and other sectors in which regular business operations do not directly benefit the community. While consumer buying habits are rarely based on CSR, some large corporations, including foreign oil companies, have experienced community pressure and social unrest when local residents do not see any direct benefit from their presence. While many enterprises in Uganda espouse some of the CSR principles under the OECD Guidelines for Multinational Enterprises, key areas such as combating bribery and corruption are routinely ignored.

Political Violence

Uganda has succeeded in achieving a level of stability after since Museveni came to power in 1986. However, some areas remain unstable, the regional terrorism threat is high, and there have been periodic eruptions of political violence in recent years.

In February 2011, Uganda held elections in which President Museveni was elected to a fourth consecutive term with 68% of the vote. The elections and campaign period were generally peaceful, but observers, including the United States, expressed concern about the diversion of government resources for partisan campaigning, the heavy deployment of security forces on election day, disorganization at polling stations, and the absence of many registered voters' names from the voter rolls. In the months following the election, political tensions rose as Uganda experienced an economic crisis. The currency lost nearly 25% of its value, and inflation rose to more than 30%, the highest level in 18 years. The country was subjected to rolling blackouts, due both to insufficient power supply and to the Government's inability to pay independent power producers to keep power plants operating. Teachers, tradesmen, taxi drivers and university professors went on strike, and the presence of security forces around Kampala remained high. A series of Walk-to-Work protests against rising prices in April and May left at least 10 people, including a 2-year old child, dead, as security forces used live ammunition, tear gas, rubber bullets, and water cannons to disrupt protestors. Members of the opposition were arrested, sometimes violently, and three of political activists were charged with treason. International news coverage of the Government's use of excessive force against protestors damaged Uganda's international image, as did Government efforts to pass laws circumscribing the public's right to protest. Concern over the deteriorating human rights situation in the country prompted the U.S. Department of State to issue a statement in November 2011 urging the Government of Uganda to respect the freedoms of expression, assembly, and the media, and to protect the human rights of all Ugandans.

The threat of terrorism remains high in Uganda. On July 11, 2010, 76 people, including one American, were killed and many more injured in twin bombings in Kampala. Al-Shabaab, the Somalia-based U.S.-designated Foreign Terrorist Organization, was responsible for the attack. Information obtained from the investigation into the bombings indicated that Americans and westerners in general were among the intended targets. The State Department has issued a Worldwide Caution warning U.S. citizens to be alert to the possibility of additional terrorist attacks in Uganda. The U.S. Embassy continues to encourage U.S. citizens to carefully consider the risk of attending or being near large public gatherings, especially those with large numbers of westerners and no visible security presence, as these gatherings can be targeted by extremist or terrorist groups. Citizens are also advised that soft targets such as hotels, bars, restaurants, and places of worship are also vulnerable to attacks. High levels of criminal activity remain a problem in Uganda, and spontaneous demonstrations can sometimes occur in Kampala and other cities. Although infrequent, these demonstrations can become violent and should be avoided. U.S. citizens considering travel, employment, or investment in Uganda should read the Country Specific Information available at www.travel.state.gov for current security information.

The threat from various rebel groups in Uganda has subsided significantly in recent years. The Lord's Resistance Army (LRA) was expelled from Uganda in 2006 and is now operating in remote areas of the border region between the Democratic Republic of Congo (DRC), the Central African Republic, and South Sudan. There have been no LRA attacks in Uganda since 2006, and improved security in the region has allowed the vast majority of the 1.8 million people displaced by the conflict to return home. In December 2008, the Governments of Uganda, DRC, and Sudan began joint military operations against the LRA, and in 2011 the United States deployed some U.S. military personnel to the region to provide technical assistance and advice to African forces pursuing the LRA.

The security situation in the remote north-eastern region of Uganda remains somewhat volatile due to armed cattle rustlers of the Karamojong and related ethnic groups raiding cattle and propagating violence.

Corruption

Transparency International’s (TI) corruption perceptions index ranked Uganda as 143 out of 182 countries surveyed in 2011, a considerable drop from its rank of 127 in 2010. Uganda's overall score slipped from 2.5 to 2.4 (according to TI, a score lower than 3.0 indicates "rampant corruption”). TI's 2011 East African Bribery Index ranked Uganda as the second most corrupt country in East Africa (after Burundi), and ranked the Uganda Revenue Authority as the fifth most corrupt institution in East Africa, and the third most corrupt institution in Uganda.

In its 2012 Scorecard, the U.S. Millennium Challenge Corporation's (MCC) placed Uganda's efforts to control corruption at 46% in its peer group, or below average. In 2009, MCC completed a two-year $10.4 million Threshold Country Program designed to strengthen the capacity of Uganda's anti-corruption agencies and enhance prosecutorial efforts. While this program was effective at enhancing some of Uganda’s technical capacity for fighting corruption and creating the anti-corruption court, political will remains absent and the program was not renewed. Concern that corruption has led to substantial "leakage" of donor funds has recently prompted a number of international donors to threaten to cut or withhold aid.

In 2011, numerous scandals erupted alleging corruption and bribe-taking by high-level Uganda officials. As a result, one high-level official was briefly jailed, one resigned, three more "stepped aside," and a handful of others were threatened with Parliamentary censure. The allegations prompted investigations by specially convened Parliamentary committees. The committee investigating corruption in the oil sector declared a temporary moratorium on all oil transactions and exploration until Uganda passes long-delayed petroleum legislation. Uganda's current Parliament has shown an unprecedented activism in investigating alleged corruption, but few of the high-profile cases ended up in court, and some that did were eventually dismissed.

In 2009, Uganda passed an Anti-Corruption Act, criminalizing bribery, influence peddling, and a long list of other offenses. The Whistleblowers Protection Act of 2010 now provides some protection to citizens who report malfeasance. However, other draft legislation, including an Anti-Counterfeiting Bill and an Anti-Money Laundering Bill, have been languishing in

Parliament for years, and many question whether sufficient political will exists to enforce the laws that have been passed.

An Anti-Corruption Division was opened in Uganda's High Court in 2009, increasing the number of corruption cases prosecuted in Uganda. In 2010, 16 corruption cases heard by the court resulted in convictions, up from 4 in 2009. The Government also launched a multi-agency initiative to track corruption trends in Uganda. The 2011 corruption report identifies weak institutions, an insufficient number of judges, and manipulation of government procurement processes as several of the main impediments to fighting corruption in Uganda. The report also recommends Uganda's political financing disclosure laws be reformed due to the "high incidence of corruption in the financing of political campaigns."

American firms have complained of lack of transparency in government procurement and possible collusion between competing business interests and government officials in tendering processes. Some foreign businesses have been urged to take on prominent local partners. In 2011, a number of high-profile government tenders for infrastructure projects were suspended following allegations of corruption. Some American firms, which are bound by the U.S. Foreign Corrupt Practices Act, suspect they have lost tenders to bidders from countries which have not criminalized the paying of bribes to foreign officials.

Bilateral Investment Agreements

Uganda is a member of the World Trade Organization. Uganda is also a member of the East African Community (EAC), along with Kenya, Tanzania, Burundi, and Rwanda. While the EAC now has a Customs Union and Common Market, the slow pace of regulatory reform, lack of harmonization, non-tariff barriers, and bureaucratic inefficiencies still hamper the free movement of goods, capital, and people. The EAC signed a Trade Investment Framework Agreement (TIFA) with the United States in July 2008. Uganda is a member of Common Market for Eastern and Southern Africa (COMESA), but not a participant in the COMESA Free Trade Area.

Uganda has also negotiated bilateral tax treaties with several nations, including China and South Africa. The EAC signed an Economic Partnership Agreement with the EU in 2007.

OPIC, Ex-Im Bank, and Other Investment Insurance Programs

Uganda is a signatory to the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and is a member of the International Center for the Settlement of Investment Disputes (ICSID). In 1965, the U.S. and Uganda signed an investment incentive agreement. Both parties signed an updated agreement in 1998, but the Ugandan Government has yet to ratify the renewed agreement.

OPIC is the U.S. Government’s development finance institution. It mobilizes private capital to help solve critical development challenges and in doing so, advances U.S. foreign policy. Because OPIC works with the U.S. private sector, it helps U.S. businesses gain footholds in emerging markets catalyzing revenues, jobs and growth opportunities both at home and abroad. OPIC achieves its mission by providing investors with financing, guarantees, political risk insurance, and support for private equity investment funds. Encouraging new U.S. private sector investment in sub-Saharan Africa is a priority for OPIC, and since 1974 OPIC has invested more than $6.7 billion in 441 projects in the region. Through sustainable investments in communities and resources, OPIC supports the American commitment to social and economic prosperity in the region. Existing OPIC initiatives and new projects focus four critical areas: credit for small and medium-sized enterprises, infrastructure development (energy, construction, housing), agriculture and food security, and humanitarian assistance.

The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the United States and is open long-term in Uganda for all its programs. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets, particularly to developing markets such as Uganda. Ex-Im Bank charges for taking on the risk in each transaction and, as such, is a self-sustaining agency that sends back millions of dollars to the Treasury every year. Ex-Im Bank has a congressional mandate to assist sub-Saharan Africa, and since 1999 Ex-Im Bank has supported over $5 billion in transactions throughout the region. In the fiscal year ending September 30, 2011, Ex-Im Bank supported more than 170 transactions totaling $1.4 billion in over 20 sub-Saharan African countries, and its total exposure to the region is $4 billion.

Labor

Education is underfunded in Uganda, and a 2011 Parliamentary report on the economy highlighted poor skills and education as one of the main obstacles to Uganda improving its competitiveness. In 2008, Uganda passed the Business, Technical, Vocational Education and Training Act to reform vocational education and skills development and make it more employment-oriented. However, a number of the reforms have yet to be implemented. In 2011, with donor support, the Uganda Petroleum Institute began teaching vocational skills needed to fill jobs in the oil sector. Uganda's prestigious Makerere University graduates thousands of students a year, but youth unemployment is high due to lack of jobs, providing a ready workforce for investors needing educated local employees.

Most urban Ugandans speak English, though many speak it only as a second language to one of 33 local languages spoken in Uganda. Labor unrest is sporadic in Uganda, and labor unions are not strong. Under the current arrangement, employers must contribute an amount equal to 10% of an employee’s gross salary to the National Social Security Fund (NSSF). The Uganda Retirement Benefits Regulatory Authority Act 2011, which provides a framework for the establishment and management of retirement benefits schemes for both the public and private sectors, will add competition to the NSSF and liberalize the pension sector. Ugandan labor laws specify procedures for termination of employment and termination payments. Foreign nationals must have a permit to work in Uganda.

Uganda cooperates with the International Labor Organization (ILO) and has ratified all eight ILO conventions. The National Organization of Trade Unions (NOTU) has 17 member unions. Its rival, the Central Organization of Free Trade Unions (COFTU), has 20 unions. Union officials estimate that nearly half of the two million people working in the formal sector belong to unions. Four labor reform bills passed by the Parliament in 2006 were aimed at improving labor rights in Uganda, but some of the laws have yet to be implemented. The new laws include provisions to reduce the minimum number of workers required to establish a union from 1,000 to 20, remove the requirement that at least 15% of employees join a union before management is required to engage in collective bargaining, and set new timeframes for union recognition, collective bargaining and strikes.

Uganda employs 100 district-based labor officers to enforce labor standards, inspect workplaces and process worker and management complaints. This mechanism contributes to the enforcement of labor standards, but lack of staffing and resources hampers its effectiveness. The Ministry of Gender, Labor, and Social Development is working to strengthen the capacity of existing labor officers.

In May 2007, Uganda launched its national child labor policy, and comprehensive anti-trafficking in persons legislation was passed in 2009, but financial constraints have prevented the policies from being fully implemented. There are active programs underway, with support from the ILO and the U.S. Department of Labor, to combat child labor, but the practice nevertheless remains a concern in Uganda, particularly in the informal sector.

Foreign Trade Zones/Free Ports

A Free Zones Bill awaiting Cabinet approval would, if enacted, authorize the development, marketing, maintenance and supervision of free trade zones in Uganda.

Foreign Direct Investment Statistics

The investment values quoted below should not be relied upon for any investment decision. The figures provided by the UIA are highly variable and the values tracked are only for projects listed. No investors provide updates after the initial registration. FDI statistics are provided by the World Bank. Any discrepancies with previous reports are a result of updated data.

Net FDI (million $)	FY06	FY07	FY08	FY09	FY10
Inflows	644.3	792.3	728.0	788.7	817.2
Outflows (Residual)	---	---	---	---	---

Value of Projects Licensed by the Uganda Investment Authority (listed in million $)					
Sector	2007	2008	2009	2010	2011
Agriculture, Hunting, Forestry and Fisheries	28.99	60.89	203.27	664.55	225.40
Community, Social and Personal Services	41.06	34.10	66.35	32.57	8.26
Construction	223.83	58.10	175.88	125.70	41.80

Electricity, Gas and Water	742.50	173.34	69.93	12.57	70.67
Financing, Insurance, Real Estate, Tourism, and Business Services	109.90	380.89	309.84	294.97	264.16
Manufacturing	325.36	641.23	577.36	327.20	638.91
Mining and Quarrying	88.25	30.36	53.80	103.31	15.92
Transport, Communication and Storage	444.81	946.12	84.65	49.33	8.49
Wholesale & Retail Trade, Catering & Accommodation Services	218.33	55.90	31.04	62.85	21.47
Total	**2223.03**	**2380.93**	**1571.82**	**1673.03**	**1295.08**